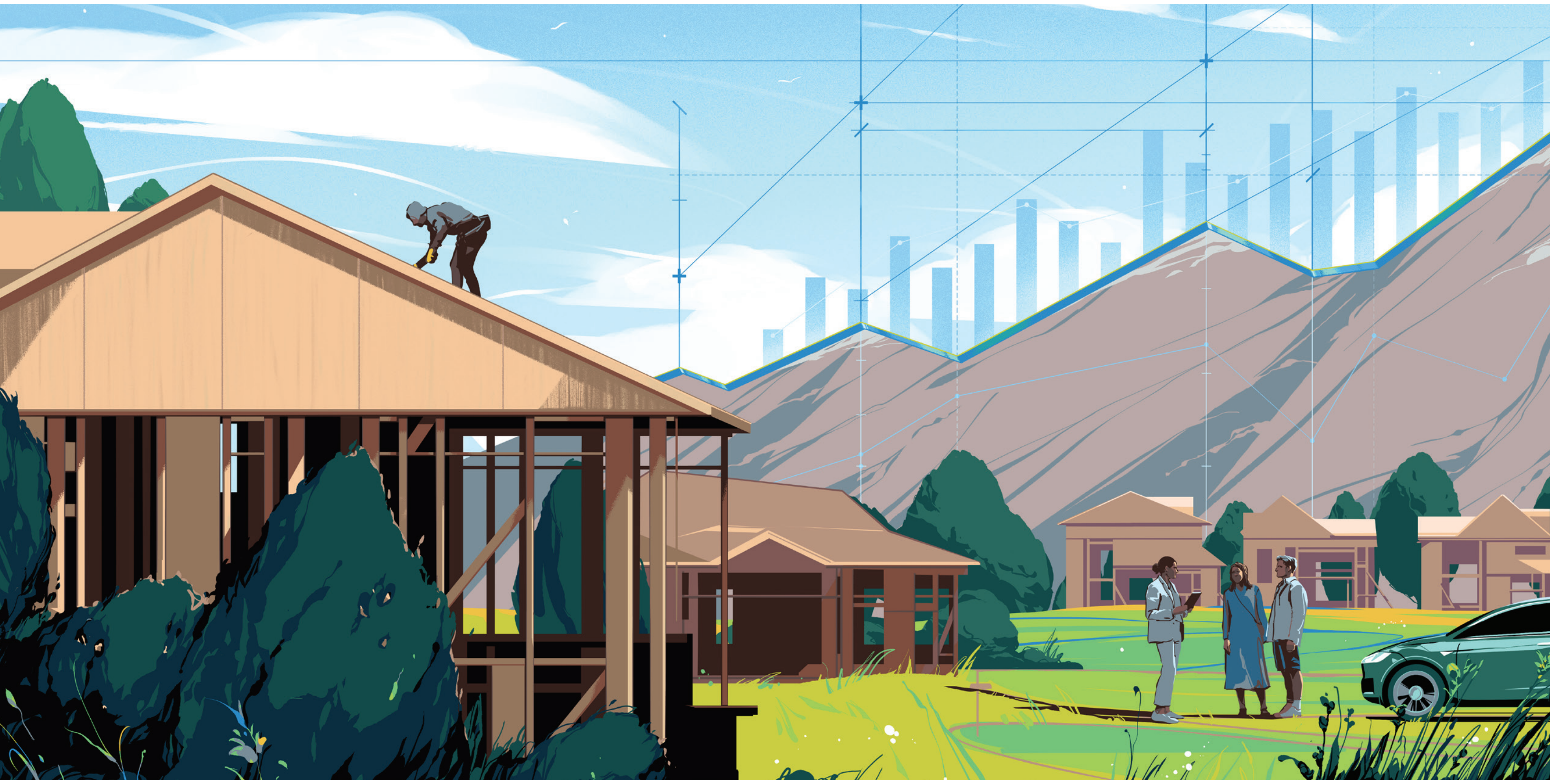

New Housing Dynamics Create Investment Opportunities

Why investors might want to rethink their approach to the residential real estate market.

U.S. residential real estate prices have continued to appreciate in recent years. But amid higher interest rates, issues with affordability for home buyers and shifting supply dynamics, investors may need to adjust their perspectives as they seek out the next set of opportunities.

"Before the interest rate reset, many investors were buying homes and apartment properties and leveraging them to get mid-teens returns," says James Ray, managing director and portfolio manager at MetLife Investment Management. "Today, we see some acquisition opportunities, but as pricing for the highest-quality assets remains elevated, we are finding targeted development opportunities."

Limited Supply and High Prices

Home prices and rents are near record highs in most parts of the country, despite higher interest rates.[1] According to William Pattison, head of research and strategy, real estate, at MetLife Investment Management, the outlook for residential investments remains positive thanks to economic conditions, demographic tailwinds and dwindling new construction.

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As demand rises, there are several factors constricting supply. The first is interest rates: Mortgage rates remain much higher than those homeowners saw during the 2010s. Outstanding mortgages have a median rate around 4%, according to the U.S. Federal Housing Finance Agency. With new mortgage rates hovering north of 6.5%, homeowners considering selling their homes face the prospect of buying with higher financing costs. That's leaving many homeowners feeling locked in by their current low-rate mortgages, giving them a financial incentive to stay put.

"When mortgage rates rose in 2022, we saw the largest drop in household mobility since the subprime mortgage crisis," Pattison says. "The lock-in effect is likely to take several more years to resolve."

At the same time, builders are facing higher financing costs and more expensive building labor and materials. "The lessons learned from the Great Financial Crisis have made builders more cautious," says Alfred Chang, head of residential credit at MetLife Investment Management. "Although some markets are seeing increasing new supply, overall inventory is low, and there are no major drivers out there to materially increase it. If rates don't materially decrease, supply will continue to be suppressed. Builders won't build, and homeowners are going to want to protect the equity they have in their homes and do what they can to not default on their mortgages."

"Disparity remains the defining characteristic of the U.S. housing market today. While certain challenges are intensifying, new opportunities continue to emerge."

— James Ray, Managing Director and Portfolio Manager, MetLife Investment Management

Changing Homeownership Patterns

Homeownership rates are still below the levels seen before the Great Financial Crisis nearly 20 years ago. Families entering the market for the first time are finding it particularly challenging. Prices for the bottom tier of homes have risen faster than the market overall, and fewer starter homes are being built. In 1984, nearly 50% of 30-year-olds owned a home; today that number has dropped to around 30%.[2]

"Home price appreciation was extraordinarily strong over the last 20 years, in large part due to very accommodative interest rate policies," Ray says. "Given the elevated cost of home ownership, some key demographic segments will tilt more toward renting for longer."

The market is already responding to these trends. The number of build-to-rent single-family homes is rising, and builders are focusing on including layouts and amenities that will appeal to today's renters.[3] "This is an attractive segment to allocate capital, which also ultimately grows overall housing stock," Chang says.

Finding Today's Opportunities

Investors interested in the residential space need to understand how different the market is regionally and among different types of properties, Ray says. "Disparity remains the defining characteristic of the U.S. housing market today," he says. "While certain challenges are intensifying, new opportunities continue to emerge."

Mixed-density developments — which offer a range of unit types and amenities in prime locations — are growing in popularity among renters. They are also providing institutional investors new residential investment options, widening the pool of opportunities and allowing for enhanced portfolio diversification.

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Property type is not the only important consideration. Understanding local market dynamics is also key. While headline numbers show population growth focused in many warmer southern states, finding the best opportunities requires bottom-up research.

“The factors influencing the movement of people and capital to Florida, Texas and other states remain present, but identifying tactical opportunities is more complex due to current macroeconomic conditions and localized supply dynamics,” Ray says. “Our recent investments range from Indianapolis through the Washington, D.C., area to Arizona.”

For many investors, rising prices and relatively high rates may seem like an impediment for generating returns in today’s residential housing market. But Chang says, “Investors should leverage strong residential market expertise and careful research to identify appealing investments that ultimately can be well-positioned to capture this market’s specific opportunities.”

[Get more insights about opportunities in the real estate market.]

Sources

1. “S&P CoreLogic Case-Shiller U.S. National Home Price Index,” Federal Reserve Bank of St. Louis, May 2025.

2. “Later Life Milestones Reshaping Homeownership in the US,” John Burns Research and Consulting, Q2 2024.

3. “Quarterly Starts and Completions by Purpose and Design,” U.S. Census Bureau.

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